Subject: 2023 Levy Operating Budget

Report to: Budget Review Committee of the Whole

Report date: Thursday, February 9, 2023

Recommendations

1. That the 2023 net levy relating to the Niagara Regional Departments budget of $175,218,521 for an increase of $9,160,125 or 5.52% over the 2022 departmental operating budget **BE APPROVED** to support operations;
2. That the 2023 net levy relating to General Government budget of $70,979,919 for an increase of $8,500,367 or 13.61% over the 2022 general government operating budget **BE APPROVED** primarily to support for Development Charge grants and incentives;
3. That 2023 net levy include additional capital financing of $10,557,500 or 2.60% over the 2022 general levy (adjusted to remove transit costs) **BE APPROVED**;
4. That a contribution of $18,400,555 from the Taxpayer Relief Reserve, **BE APPROVED** to fund the net pressures related to the COVID-19 pandemic of $18,271,768 for Regional Departments, and $128,787 for the Agencies, Boards and Commissions COVID-19 pressures, as detailed in Appendix 3 of Report CSD 16-2023, for a net taxpayer impact of $0;
5. That an increase of $1,590,700 or 0.39% **BE APPROVED** to support staffing requirements for additional Land Ambulances as a result of offload delays and rising call volumes;
6. That an additional 1.85% or $7,516,953 of assessment growth revenue **BE APPROVED** to fund $890,226 of Tax Increment Grants, $395,750 of operating costs of capital and $6,230,977 for inflationary pressures;
7. That an additional 0.74% or $3,000,000 **BE APPROVED** to fund 50% of $6 million 2022 tax increase funded from reserves;
8. That the 2023 general levy of $451,713,090 **BE APPROVED** to include:
    - Regional Departments & General Government of $262,632,616
    - Agencies, Boards, and Commissions of $189,080,474; and

9. That the necessary by-law **BE PREPARED** and **PRESENTED** to Council for consideration.

Key Facts

- The primary purpose of this report is to approve the Regional Department and General Government operating budget for 2023
- The Regional Department and General Government budgets are consolidated with the ABCs for the total Regional General Levy of $452 million
- Due to the consolidation of transit to the NTC Special levy all the 2023 budget analysis has been prepared using the 2022 General Levy of $422 million reduced by $16 million in Regional transit expenses for an adjusted base of $406 million.
- The Regional Departments budget increase is 5.52% to sustain current service levels amidst higher than normal inflation which was 6.8% in 2022
- The assessment growth for 2023 of 1.85% provides $7.5 million of additional tax revenue of which $6.2 million is being recommended to offset to pressures of inflation. The balance of growth has been allocated to tax increment grants ($0.9 million) and capital operating expenses ($0.4 million).
- The ABC total levy request is 6.46% over the ABC 2022 budget or $11.5 million; this represents $9.6 million from NRPS, $1.1 million from NPCA, $0.8 million from Court Services and $0.1 million from NRH resulting in an incremental pressure on the levy.
- Included in Appendix 5 is a multi-year forecast of budget increases and the Taxpayer Relief Reserve to inform Council decision making in light of the significant financial impacts of Bill 23 as presented in report CSD 14-2023 which demonstrates the limited reserve capacity should the report recommendations be adopted.

Financial Considerations

The recommendations in this report are made in accordance with By-law 2019-79 “Budget Planning” with consideration of COVID-19 impacts per the 2023 budget planning strategy.

The Regional department costs to support all direct service delivery are increasing by 5.52% over 2022. The General Government budget for all non departmental expenses such as grant and incentives, capital financing, investment income, supplemental taxes and hospital and hospice funding is increasing by 13.61% over 2022, or $8.5 million.

Table 1 - Consolidated Levy Budget (in millions)

	2022	2023	Year over Year $ Change	Year Over Year % Change	% of Consolidated Levy
Departmental Budget	$166.0	$175.2	$9.2	5.52%	
General Government	$62.5	$71.0	$8.5	13.61%	
NRPS	$168.3	$177.9	$9.6	5.68%	
NPCA	$6.3	$7.4	$1.1	17.17%	
Courts	($0.9)	($0.1)	$0.8	89.85%	
NRH	$3.9	$4.0	$0.1	2.00%	
COVID-19 Costs	$29.9	$19.4	($10.5)		
Funding for COVID-19*	($29.9)	($19.4)	$10.5		
Department & ABC Base Budget	**$406.1**	**$435.4**	**$29.1**		**7.18%**
2022 Tax Deferral Funded from Reserve		$3.0	$3.0		0.74%
Capital Financing		$10.6	$10.6		2.60%
New Programs		$1.6	$1.6		0.39%
Growth Expenses		$1.3	$1.3		0.32%
Assessment Growth					-1.85%
Consolidated Levy Budget	**$406.1**	**$451.7**	**$45.6**		**9.37%**

*includes Reserve Funding and Provincial Funding

The proposed consolidated 2023 Tax Levy inclusive of ABCs, Capital Financing and New Programs of $452 million represents a $45.6 million increase or 9.37% after assessment growth.

Household Impact

Based on the 2023 cost for levy programs, the average household assessed at $278,764 is estimated to increase from $1,620 (adjusted to exclude Transit) to $1,772 in 2023, an increase of $152.

Table 2 – Household Tax Impact

	2023 impact to household	Cost to household
2022 Cost per Typical Household (adjusted to exclude transit)		**1,620**
Departmental Budget	$38	
General Government	$32	
Capital Financing	$42	
Growth Costs	$5	
Assessment Growth	($28)	
2022 Tax Deferral	$12	
New Program - EMS	$6	
NPCA	$4	
NRH	$0	
NRPS	$38	
Court Services	$3	
2023 Est. Cost per Typical Household	**$152**	**1,772**

The actual cost per household may change depending on tax policy decisions that are made in 2023. The impact on individual property owners will depend on the increase in assessment that they experience; those with an increase greater than the average property would experience a larger tax impact, while those with an increase less than the average property would experience a smaller tax impact.

Analysis

The 2023 departmental levy budget was developed giving consideration to 2022 forecast for the year, impacts of contracted services, inflationary impacts, operational concerns, service delivery requirements, and impacts of COVID-19.

Departmental Services

The departmental base budget of $166.1 million is increasing by $9.2 million (5.52%). Where ever possible Departments maintained discretionary costs at 2022 levels in order to mitigate inflationary pressures on the cost of inputs to service delivery where options are limited. The Departmental budget increases can be attributed primarily to the following items:

- $8.4 million (3.08%) labour related costs reflective of current contracts, additional pressures in WSIB and OMERs due to eligibility changes
- $1.5 million (6.46%) increase in legislated housing provider operating subsidy which is tied to very specific cost indices for each expenditure type in alignment with current extraordinary inflationary trends
- $0.9 million (47.07%) in fuel costs for ambulances and transportation
- $0.6 million (22.40%) in software licensing as a result of increased contract pricing and increase in number of licenses
- $0.6 million (10.19%) in contracted hired equipment as a result of rising insurance/fuel costs
- $0.6 million (27.02%) in medical supplies due to increased contract pricing
- $0.4 million (7.52%) in utilities
- $0.4 million (4.86%) in contracted building maintenance and grounds costs due to rising insurance/fuel costs
- $0.3 million for the reintroduction of Pro-kids program funding as prior year surplus funds have been exhausted
- $0.2 million (3.90%) in insurance premium increases on policy renewal
- $1.1 million representing pressures of less than 1% of all remaining budget items

These base pressures have been partly offset by:

- $3.4 million increase in subsidy and revenues within Community Services
- $2.2 million increase in subsidy for Public Health and EMS

Departmental budgets were prepared based on maintaining current services levels in alignment with the budget strategy, however a number of departmental budgets are also funded by the provincial government. Many programs either 100% (for example, Mental Health, Ambulance Dispatch) or partially funded (for example Public Health Mandatory Programs, Housing Services) have not seen provincial subsidy increases to keep pace with inflationary costs. This has lead to an increased reliance on levy funding in order to maintain service levels. In particular, 2023 includes for the first time, Mental Health on the Levy of $0.5 million and an increased levy funding of Public Health of $0.3 million.

General Government

The General Government budget is increasing by 13.61% over 2022, or $8.5 million primarily as a result of an increase in grants of $9.3 million. This is driven by DC grant programs recently approved by Council for Agriculture and Brownfield development as part of the Regional Development Charge By-law.

The grant costs are partially offset by increases in supplemental and payment in lieu taxes of $1.2 million. Supplemental taxes are taxes billed on new properties that have come onto the tax roll throughout the year. Payment in lieu taxes are Federal payments to the Region to help offset losses in property taxes due to the existence of non-taxable Federal lands within our boundaries.

Capital Financing

The 2023 Budget Strategy proposed an additional 2.50% increase on the 2022 levy budget for enhanced capital funding. This is actually 2.60% of the 2022 levy when adjusted for the removal of Regional transit costs. This was proposed as an alternative to the 3.82% increase as recommended by the 2021 Asset Management Plan (CSD 7-2022) in order to balance affordability with sustainability.

Inclusive of the incremental 2.60% ($10.6 million) of the levy budget, the annual contributions to general capital levy capital reserves will be $36 million versus the target of $158 million target based on the 2021 Asset Management Plan (see Appendix 2).

COVID-19 Impacts

Staff have estimated 2023 departmental net COVID-19 costs of $18.3 million ($18.4 million inclusive of ABCs). Due to uncertainty of the long-term need for these measures, the costs are proposed to be funded again on a one-time basis using the Taxpayer Relief Reserve which will be replaced with funding when confirmed. The 2024 budget will involve of a process of evaluating costs to ensure that on-going costs can be sustained in the budget and will no longer be funded from reserves. A listing of

COVID-19 pressures is provided in Appendix 3 and the business cases are available in the 2023 Budget Detail.

One Time

Operating programs that are time limited or one time in nature may be funded by reserves as per the Budget Planning by-law. One time costs in the amount of $0.7 million as shown in Appendix 5 will be funded by the Taxpayer Relief Reserve. This includes costs related to Finance and HR consulting contracts and strategic plan expenses.

Taxpayer Relief Reserve

The projected Taxpayer Relief Reserve balance for 2023 is $21.3 million inclusive of COVID-19 impacts and One-Time funding as outlined above. The target reserve balance is between $70.7 and $106.1 million. A detailed forecast of the Taxpayer Relief Reserve is provided in Appendix 5.

Funding the 2023 impacts of Bill 23 with Taxpayer Relief Reserve as per recommendations of CSD 14-2023 will result in a negative balance in the reserve in 2024. If these recommendations are not adopted the Taxpayer Relief Reserve will be even more negatively impacted as per Appendix 2 of CSD 14-2023. As 2023 COVID funding is confirmed, the forecast will be updated and recommendations will be modified accordingly as it is not appropriate to make recommendations that would leave the reserve in a negative balance.

Assessment Growth

Assessment growth for 2023 is 1.85% ($7.5 million); this is the additional revenue from new properties constructed (growth) in the Region. Assessment growth is allocated in alignment with the Budget Planning By-law and prioritizes usage of growth revenue as follows:

- Operating costs of $0.4 million related to new and growth capital assets such as fuel costs for new vehicles and new IT license costs.
- Programs aimed at driving economic growth or other Council priorities. This includes Tax Increment Grants (TIGs) which are available for eligible projects that reimburse property owners for up to 100% of the municipal property tax increase created by property improvement for up to 10 years. This is $0.9 million for 2023.

Due to the pressures on inflation, the budget strategy recommended that the assessment growth remaining after these priorities of $6.2 million be used to offset the pressures of inflation.

New Programs

The 2023 Operating budget includes a request to support staffing for 2.5 new ambulances which requires 22 additional FTEs at a cost of $3.2 million gross and $1.6 million net (0.39% of the levy). The ambulances are required to address increasing call volumes and offload delays and have been in place on a temporary basis since May 2022. The external funding includes $0.86 million in incremental funding from the Ministry of Health through the Land Ambulance Service Grant Agreement in recognition of Council's approval to fund these temporary resources in 2022, and $0.76 million to be funded from the Region's Taxpayer Relief Reserve. Provincial funding will increase to half of the total cost in 2024 to recognize 50% of the full budgeted cost of 2023. Further details are provided in the business case.

If this recommendation is not approved, the capital budget could be reduced by $0.7 million being the cost of two ambulances. And operating costs funded from assessment growth of $37.5 thousand would also be eliminated. As well, the funding match from the Province of $1.6 million would be forfeited.

Staff Complement

The recommended 2023 Regional Department Operating Budget includes a staff complement of 2,715.6 permanent full-time equivalents (FTE) and 280.8 temporary FTEs. A list of the staffing changes including position title is available in Appendix 4.

Table 3: FTE Summary

	Perm FTE	Temp FTE
2022 Adjusted Budget	2,566.1	372.7
New FTE (net cost of zero)	117.0	10.3
Temp to Perm (net cost to zero)	11.0	(11.0)
Temps Expiring	0.0	(5.5)
New Ambulance FTE	22.0	0.0

	Perm FTE	Temp FTE
COVID-19 Temps Expiring	0.0	(272.7)
COVID-19 Temps for 2023	0.0	187.0
2023 Budget	2,715.6	280.8

Multi-year Outlook

The multi-year forecast provides insight into on-going pressures in future year budgets. Some of the items affecting 2024 in addition to Bill 23 and infrastructure funding are continued pressure related to insurance premiums, hired equipment and building maintenance costs as well as the continued decline of upper level government funding for housing provider costs. Therefore prior to using any reserves to defer tax increases into future years Council should consider the details in Appendix 6 which are forecasting an increase of 10.93% for 2024.

Risks and Opportunities

The Niagara Region budget is prepared based on information available at a point in time. Services and/or the actual operational costs can be impacted by the following:

- Actual staff turnover is not consistent from year to year therefore there is a risk that the budgeted salary gapping of $1.3 million will not be realized.
- Pressures of further non-core service delivery requests will further impact tax payer affordability.
- Other levels of government funding of COVID-19 costs will impact balances in the Tax Payer Relief Reserve.
- Continued volatility in the inflation rate could put further pressure on cost estimates
- Estimates have been made regarding Provincial Bill 23, “More Homes Built Faster Act”, 2022, impacts on Development Charge revenues; however these are subject to the pace of Regional development. Additionally some aspect of the Bill have yet to be defined and estimates cannot be made at this time so greater costs are likely.

Sinking Fund

As per the Municipal Act, Section 289, Niagara Region is required to prepare and adopt a budget including amounts to be raised for sinking funds. Additionally, as per Section 424, the Treasurer must prepare for Council, an annual statement of the amount to be raised for a sinking fund. This report will also serve to carry out Niagara Region's responsibilities as prescribed in the Municipal Act.

Niagara Region's sinking fund is a separate fund maintained for the purpose of providing the repayment of all sinking fund debt when it becomes due and payable. Proportionally, 88.05% of the fund relates to Niagara Region and the remaining 11.95% relates to the City of St. Catharines. The debt issued on June 30, 2010 subject to repayment through the sinking fund is $78,079,000. This amount is repayable in full on June 30, 2040. The annual budget for Niagara Region's portion of the debt charges associated with the sinking fund is $4,906,470 ($1,331,695 principal, $3,574,775 interest). This amount has been included in the 2023 budget, and subject to Niagara Region achieving the annual required rate of return of 3.50%, will remain in effect until the sinking fund matures on June 30, 2040. To date the Niagara Region has been able to invest in bonds yielding on average greater than the required rate of return.

Alternatives Reviewed

Alternatives options are provided in Table 4, however all options increase risk of inadequate base funding and availability of Taxpayer Relief Reserve to mitigate risk.

Table 4: Alternatives

	$ Increase/ (Decrease)	% Increase/ (Decrease) on the Levy
Fund Bill 23 impacts from the levy vs recommendation of report CSD 14-2023	$18.1M	4.46%
Revisit grants/incentive programs in light of Bill 23 exemptions for affordable housing and industrial development	($2.8M)	(0.69%)

	$ Increase/ (Decrease)	% Increase/ (Decrease) on the Levy
Reduce estimate for Agricultural DC Grants based on 2022 actuals	($0.8M)	(0.20%)
Defer 100% of 2022 tax deferral to 2024	($3.0M)	(0.74%)

Council may request staff identify base budget reductions to mitigate 2023 budget pressures. To that end the CAO with the support of staff has identified program cuts for Council consideration. It is very important to note that the principles that guided the creation of this list ensured that any service or budget reduction would not result in negligence with respect to the region's legislative responsibilities, unsustainable service delivery, or health and safety impacts directly associated with the Region's mandated service delivery. The staff would not recommend any further service reduction for council consideration. Appendix 7 attached are those that could be implemented in 2023 and realize a prorated share of the annual savings provided based on actual implementation date. Confidential Appendix 8 are those that require additional costs to exit the service area therefore the annual savings provided cannot be realized until a future year (multi-year strategy). With further analysis some savings could be realized from this category in 2023 if one-time costs to exit are determined to not exceed total program cost however further analysis is required of confidential alternatives.

Relationship to Council Strategic Priorities

The 2023 levy budget supports all facets of the organization in their support of Council's priorities.

Other Pertinent Reports

CSD 22-2022	2023 Budget Planning
CSD 1-2023	2023 Capital Budget
CSD 3-2023	Q3 2022 Financial Update
CSD 14-2023	Bill 23 Financial Impacts on Regional Development Charges

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Appendices

Appendix 1	Niagara Region Departments Base Budget
Appendix 2	Asset Management Target Capital Financing
Appendix 3	COVID-19 Pressures
Appendix 4	FTE Summary
Appendix 5	Taxpayer Relief Reserve Forecast
Appendix 6	Multi-year Levy Forecast
Appendix 7	Alternatives
Appendix 8	Confidential Alternatives